


Proctor Plumbing Limited: A Case Study Of The Balanced Scorecard (BSC)

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ABSTRACT

This paper presents a teaching case study on the balanced scorecard (BSC) for a plumbing firm. The case requires participants to apply BSC principles by producing a wall poster illustration of the BSC. The participants are then required to take a gallery tour of the wall poster illustrations, share their experiences and assess the illustrations for both content and presentation. The case is applicable in introductory and advanced management accounting courses.

THE BALANCED SCORECARD: BRIEF LITERATURE REVIEW

 ne of the most influential methods of non-financial performance measurement has been the Balanced Scorecard (BSC). The BSC is now well-established as a performance measurement device. It is a management approach that can lead a company or business unit to focus on achieving current financial results as well as creating future value through strategic activities. Kaplan and Norton (2001a, 2001b) argue that senior managers need this balanced approach because reliance on financial measures alone cannot motivate, predict or create future performance.

The BSC tracks performance from four perspectives as shown in Figure One on the next page.

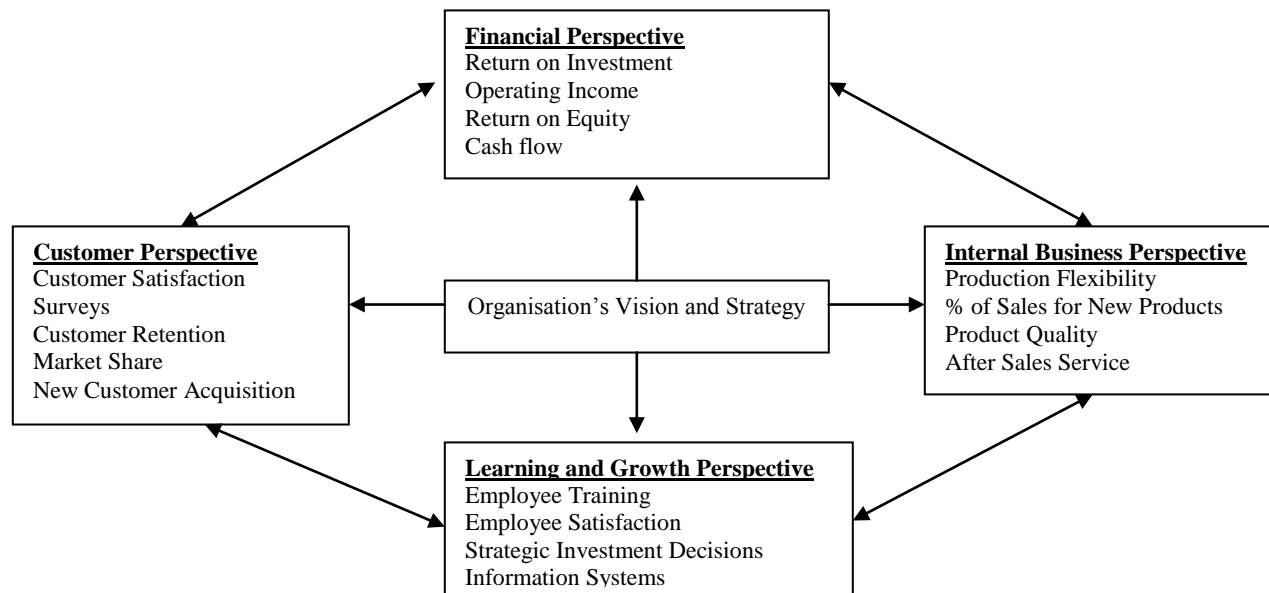
Each of the four perspectives aims at asking the following questions:

- Financial: How do we look to shareholders?
- Customers: How do customers see us?
- Internal processes: What must we excel at?
- Innovation and learning: Can we continue to improve and create value?

The BSC facilitates activities with value-adding potential, such as:

- Making strategy operational by translating strategy into action.
- Focussing the entire organisation on what must be done to create breakthrough performance.
- Acting as an integrating device, an umbrella, for a variety of diverse, often disconnected corporate programmes such as quality, re-engineering, process redesign, and customer service.
- Translating corporate level measures into measures at lower levels in the organisation so that local managers, operators, and employees can see what they must do well in order to improve organisational effectiveness.
- Providing a comprehensive view that overturns the traditional idea of the organisation as a collection of isolated, independent functions and departments.

Figure One: The Balanced Scorecard (Examples Of Measures):
Adapted From Kaplan And Norton (1992) – Source Blundell Et Al (2003), P.52.



PROCTOR PLUMBING LIMITED¹: A CASE STUDY ON THE BALANCED SCORECARD

The purpose of this case study is to design a BSC, with goals and measures for a plumbing company, called Proctor Plumbing Limited.

The learning outcomes are:

- To apply BSC principles.
- To apply critical thinking.
- To work effectively in a team.
- To communicate effectively, both verbally and in writing.

Proctor Plumbing Limited is an outstanding organisation. It is dedicated towards achieving the highest possible standards for its customers, employees and owners: "exceeding every expectation" is the firm's motto. Dan Wallace, the CEO recently attended a training session on the Balanced Scorecard (BSC). He is of the view that the BSC is something that could be used to enhance the performance of Proctor Plumbing, as little formal performance measurement exists. He decided to introduce the technique during the coming year.

The company has been in existence for many years, distributing quality niche products to the New Zealand plumbing and drainage industry. Among the company's products are high-quality bathroom fittings, top of the line plumbing products and high-tech equipment for water supply and drainage. Products are sourced from independent

¹ This case study is adapted from a case written by William Cotton Under the terms of an exclusive Memorandum of Understanding between Advanced Business Education Limited and a real New Zealand company. The name and details of the company have been changed at the request of the management. However the situations and material described in the case reflect the real company. Copyright Advanced Business Education Limited 2005 -reproduced with permission

companies world-wide, including New Zealand. Over the previous three years there has been a concerted effort to broaden the range of product available, as market research indicated customers wanted quality and innovation through new technology. Proctor Plumbing is serious about the effectiveness of its team of employees. It has a "results driven" structure that is flat, with all people valued equally within the organisation. Proctor Plumbing is highly visible in the marketplace, supporting industry events through trade display attendance, marketing initiative and networking with a team of experienced sales engineers and product managers committed to visiting key accounts on a regular basis. Proctor Plumbing Limited has the following core values: success, innovation and leadership.

TEACHING NOTES

Required: In teams

- Reach agreement on goals for Proctor Plumbing Limited.
- Establish appropriate measures for Proctor Plumbing Limited.
- Produce the wall poster illustration of the BSC for Proctor Plumbing Limited.
- Take a wall poster illustration gallery tour which requires: (1) all teams rotate the room reviewing each wall poster illustration and (2) teams assess the content and presentation of the illustration (details of assessment criteria are detailed below).
- Stand, Move and Chat (SMAC). All members of teams STAND, look across the room, and find someone to approach to talk about the goals and measures. Students MOVE to the person they have identified and then CHAT about the results.

Case Commentary

Proctor Plumbing Limited: BSC Suggested Template

Financial		Customer	
Goals	Measures	Goals	Measures
Cash Flow	Actual/Budget	Customer acquisition	Prospect calls
Net Profit	Actual/Budget	Customer profitability	Net value each
Operating Expenses	Actual/Budget	Customer retention	Lost business
Revenue Growth	% achieved	Customer satisfaction	Survey
Revenue-New Markets	% achieved	Management visibility	Key account calls
Return on Equity		Rep Visibility	Call rates
Internal Process		Learning and Growth	
Goals	Measures	Goals	Measures
Bar coding	No of product groups	Empowerment	Improvement suggestions
Correct product portfolio	Stock turns	Information access	% staff with access
Employee numbers	Revenue per employee	Key Staff retention	Staff turnover
Excellence in performance	KPI Appraisals quarterly	New products	% of total revenue
Inventory management	Stock outs	Staff Involvement	Aligned goal setting quarterly
Lead time	Delivery	Team work	Annual survey
		Training	\$ Actual/Budget

Suggested Assessment Criteria: BSC Wall Poster Illustration

Presentation criteria

- Four sections in order of Financial, Customer, Internal Process, and Learning and Growth.
- Separate columns for goals and measures in the four categories.
- Effective visual – include writing neatness.

Content criteria

- Listed appropriate goals in all four sections of the balanced scorecard.
- Supported the goals with appropriate measures.

REFERENCES

1. Blundell, B., Sayers, H., and Y.P. Shanahan (2003). The Balanced Scorecard in New Zealand: A Survey of the Top 40, *Pacific Accounting Review*, 15, 1, 49-74.
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3. Kaplan, R. S. and Norton, D. P. (2001a). Transforming the balanced scorecard from performance measurement to strategic management: part I. *Accounting Horizons*, 15, 1 87-104.
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NOTES